FIS

Ferrous Weekly Report

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22/3/2022

Market Review:

⇒ **Iron ore Fe62%** short-run **Neutral to bearish**. Iron ore spiked on the news of Vale's removal of workers in Carajas areas and retreated after Vale claimed no direct impact on iron ore production.

⇒ **U.S. HRC Front Month** short-run **Bullish**. HRC in the U.S. started to follow the massive increase in European steel prices supported by the steel shortage expectation in the Atlantic market.

⇒ **Rebar 25mm Shanghai** short-run **Neutral**. Tangshan area and Chinese eastern provinces are currently making residents take days of consecutive Covid-tests to screen for infected patients. Steel production was still normal, however downstream was greatly affected.

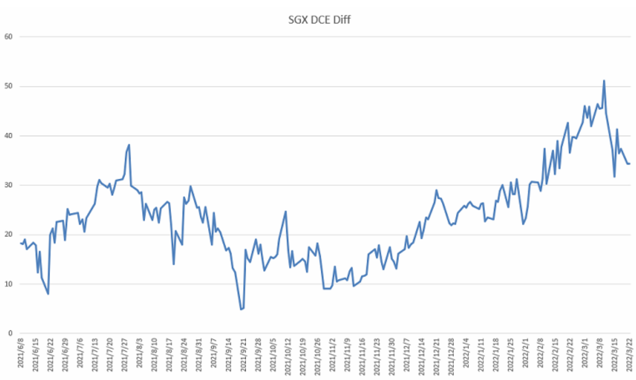
⇒ **Australia Export Hard Coking Coal** short-run **Neutral**. The Russian coal shortage and rocketing gas prices in Europe intensified the shortage of coking coal in near term, however in the longer term laycans, supply started to catch-up.

Prices movement	21-Mar	14-Mar	Changes %	Sentiment	
Iron Ore Fe62% ($/MT)	**147.9**	**144.9**	**2.07%**	**Neutral to Bearish**	↘
Rebar 25mm Shanghai (Yuan/MT)	**4950**	**4910**	**0.81%**	**Neutral**	-
U.S. HRC Front Month ($/MT)	**1135**	**1125**	**0.89%**	**Bullish**	↑
Australia Export Hard Coking Coal($/MT)	**625**	**670.5**	**6.79%**	**Neutral**	-

Iron ore Market :

Iron ore prices went up significantly, encouraged by the positive signal sent from the Chinese financial system conference, saying the Chinese listed equity in the U.S. are not at risk of a forced delisting. China industrial sectors followed the sentiment and rebound significantly. In addition, a Brazil court ordered Vale to remove 359 workers from the Pera Jusante dam. There was buy speculation on the potential impact and a correction after Vale claimed no impact to its operations. Tangshan area steel transportation was limited due to the pandemic spread, but downstream market in northern and eastern China are generally frozen. Thus, iron ore demand currently looked weak.

The seaborne market started to see some bids on PBF and some mixed-laycans with improving premiums. However buying interests were still a bit away from seller expectations. Thus mainstream seaborne traded volume was still small. The physical steel margins in northern China slid from 500 yuan/ton to 100 yuan/ton during the first quarter of 2022, reaching a historic low level if the transportation cost rise on materials as well as environmental facility costs are included. Mills are currently reluctant to risk stocking iron ores in particular during a pandemic spread, with real demand downstream reflected greater uncertainties. As a result, the cost-effective strategy, as well as fast decreasing portside inventories, supported the demand of FMG SSF.



The current investment market and physical market are both positive on global ferrous demand outlook for the second half compared to the first half of 2022, based on a hope of an end to the Ukraine conflict, as well as post Omicron economic recovery.

MB65– P62 difference fell from $29 to $26 level after witnessing few constructive movements between Russia and Ukraine. High grade demand started to weaken as China ended production restrictions and a sharp drop in steel margins.

Data Source: Bloomberg, Platts, Fastmarket, FIS

Market Review (Continued)

Iron ore Market :

The front spreads of SGX iron ore reached historic low levels. For example iron ore April/May 22 spread reached –$2.52 last week, a three-year-low. If tracing the record for SGX next month versus the third month contract, the currently level -$0.6-0.7 puts it at the extreme end of the probability map with a 0.04% chance to see it breach the record level for the last three years. The rebound of the spreads is expected, at least to positive levels.

Downstream/Policies/Breaking News:

The Chinese government held a financial subject conference to emphasise the stablisation of financial system and resolution of China equities listed in U.S. A similar conference was held on Monday as well. Over the weekend, China and the U.S. started the first round of conference calls since last August, and had "progressive and constructive" discussions. The secondary market including industrial commodities started to pick up on the back of this more positive tone.

The interest rate increase in the U.S. and by the BOE are both expected, however U.S. investment markets started to be concerned by the risk of stagflation similar to 1970s. U.S. Fed chief said on Monday that the Fed would make a rate rise. Russia denied the reported progress made during the previous Russia-Ukraine talk, which lifted crude oil price by 10%.

North European HRC continued to increase last week driven by slightly bigger trades compared to previous few weeks. The market and mill stocks were both high since buyers were making purchases in case of a disruption on imports. Risk management preferences grew during March in steel contracts to avoid the shortage on purchase orders.

Global Steel Market:

Argus' daily northwest EU hot-rolled coil (HRC) index has also jumped by 43pc from €970.50/t at the start of March to €1,392.75/t today. Disruption to raw material supply around Black Sea region forced steel makers to look further afield with additional transportation cost and risks of deterred delivery. However German automakers have hiked their annual price by €400-500/t. Automakers are not willing to shift steel cost directly to their buyers.

A north China mill sold 10,000mt SS400 HRC to South America and Africa at $870- $880 FOB. Vietnamese mill Hoa Phat lifted its monthly offers by around $77-84/t to $907-914/t CIF Vietnam for May and June shipments of both SS400 and SAE1006 grade coils. Those levels are competitive in Vietnam with Chinese SAE1006 grade coils offers at $910-930/t CFR Vietnam.

Europe's steel market benchmark ArcelorMittal increased official HRC offer by €100/t in March 16th to €1,400/t, CRC and HDG went up in same amount. ArcelorMittal has raised its HRC price by €430/t during March. The EU ban on Russian and Belarus steel imports would maintain the European steel market in an extreme tight supply condition. However EU opened the import steel quota from Turkey and India to 430,000 mt and 273,000 mt respectively in quarter basis. Large European service centre reported 1,000 mt Visgrad S235 grade HRC at €1400/t delivered Ruhr, for May delivery.

Sources: Argus, IHS Markit Commodities at Sea Service, FIS

Market Review (Continued)

Chinese Steel Market:

The weekly consumption of five typical steel mills are maintained at 9– 9.5 million tons, a seasonal low area because both the unexpected virus spread, as well as slightly below expected demand market. Steel production in surveyed northern areas reported little change in March. However the extended quarantine period in downstream industries would cause a shortage of raw material stock again since major steel mills were not planning for the unexpected lockdown measures.

Tangshan area stopped some major road and highway transportation, restricting steel delivery to other provinces. However downstream in Northern and Eastern China were in a "sequential stoppage" phase.

Shanghai 25mm physical rebar price increased 40 yuan/ton over the week, the market expect a delay on the real trade which could bring this price down from mid of the week. Major China eastern mills ex -factory rebar price at 5200 yuan/ton unchanged from mid-March.

Coal Market:

Coking Coal TSI FOB PLV suddenly dropped $45 this Monday , the coking coal market started to cool while delivered to China prices decreased on concerns about the pandemic. The FOB Australia Atlantic market saw little change on the fundamental side, as the near laycans supply was still tight. U.S. miners are largely sold out April and May loadings for branded coking coal.

Buyers were trying to wait for a relaxation in the demand market as laycans for two months ahead became gradually sufficient. SGX March/June 22 spread went up from the $110 to $170 during March, with reflected this demand difference in near-term and mid-run.

A bearish sentiment started to emerge on the semi-soft and PCI market when Indian mills started to look for Russian exports to substitute expensive and unstable Australian sources. Weekly U.S. coal production fell 5.5% on the week to 11.3 million st in the week ended March 12th according to EIA. Canada miner Alberta coal exported 608,053 mt in January, up 70.5% from last December driven by the demand from Japan.

Chinese coke price has raised 800 yuan/ton from mid-February, the roadway and railway are both almost cut-off from western coke plants or miners to eastern steel mills since the spread of the Omicron from early March.

Sources: Argus, IHS Markit Commodities at Sea Service, FIS

Technical view of the Ferrous Markets:

Ore

April Futures – The futures traded through the USD 140.62 support level last week but only traded to a low of USD 136.95, price did not test the USD 132.35 fractal support, meaning price remained technically bullish but with a neutral bias. The futures have since traded to a high of USD 155.05 but remain below the USD 156.88 level, leaving the futures vulnerable to a technical pullback.

Price is currently trading at USD 150; corrective moves lower that hold at or above USD 143.10 will support a bull argument, below this level the futures will target the USD 136.95 fractal support. The technical is bullish with a neutral bias, key resistance is at USD 156.88, if it holds then the technical is vulnerable, if it is broken, we target the USD 167.15 high.

Steel

April Futures – Technically bullish last week we noted the futures had potentially completed an intraday Elliott wave cycle using the Williams approach. The futures have corrected but continue to hold above USD 1,330. Corrective moves lower that hold at or above this level will support a bull argument, below this level the technical will have a neutral bias. Upside moves above the USD 1,585 high would suggest we remain on the wave 5, implying we could test the USD 1,688 level (78.6% Fibonacci projection of waves 1 to 3).

Coal

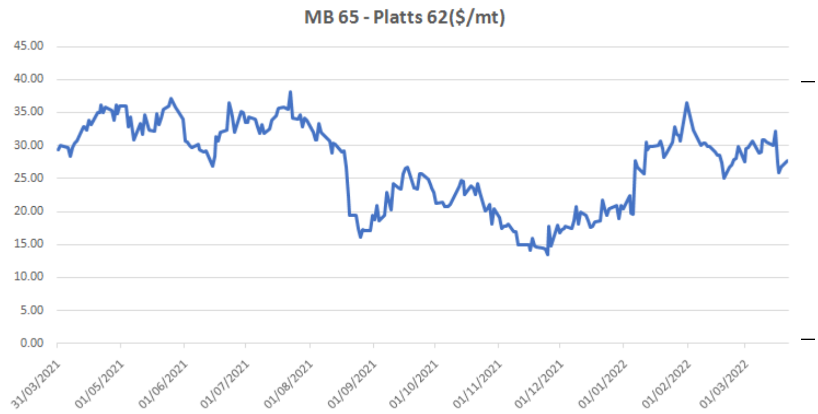
April Futures – As noted last week the technical although bullish was trading around USD 200 above the 55-period EMA warning the futures were looking overextended, meaning the futures either needed to correct or consolidate and wait for the averages to catch up. The futures have entered a corrective phase, downside moves that hold at or above USD 454 will support a bull argument, below this level the technical will have a neutral bias. Elliott wave analysis continues to suggest that the downside moves should be considered as countertrend at this point. Technically bullish but in a corrective phase, we continue to have a mean reversion gap of over USD 135 suggesting the Fibonacci support zone (USD 530 – USD 454) could be tested.

FIS senior analyst, Edward Hutton

Chart source: Iron ore from Bloomberg

Iron Ore

	Last	Previous	% Change
Platts 62% Fe (Dollar/mt)	147.9	144.9	2.07%
MB 65% Fe (Dollar/mt)	175.6	174.9	0.40%
Capesize 5TC Index (Dollar/day)	20481	23101	-11.34%
C3 Tubarao to Qingdao (Dollar/day)	27.875	30.35	-8.15%
C5 West Australia to Qingdao (Dollar/day)	11.741	12.327	-4.75%
Billet Spot Ex-Works Tangshan (Yuan/mt)	4720	4720	0.00%
SGX Front Month (Dollar/mt)	151.35	154.31	-1.92%
DCE Major Month (Yuan/mt)	851	822	3.53%
China Port Inventory Unit (10,000mt)	15,497	15,714	-1.38%
Australia Iron Ore Weekly Export (10,000mt)	727.40	1,162.90	NA
Brazil Iron Ore Weekly Export (10,000mt)	115.60	266.70	NA

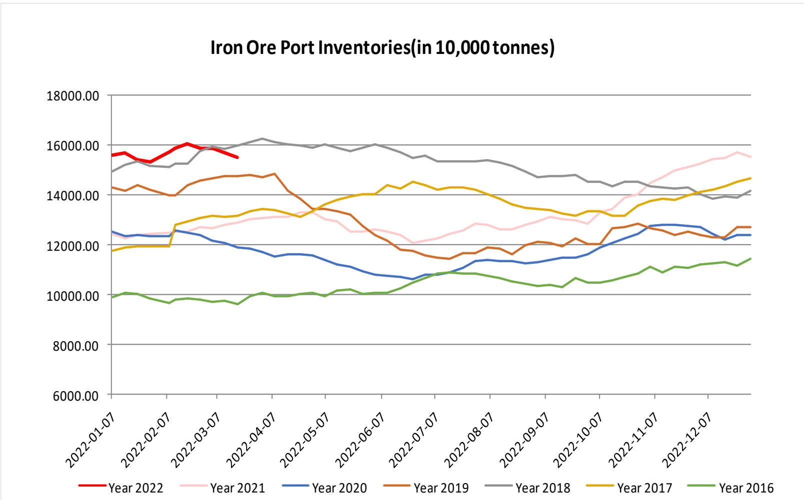


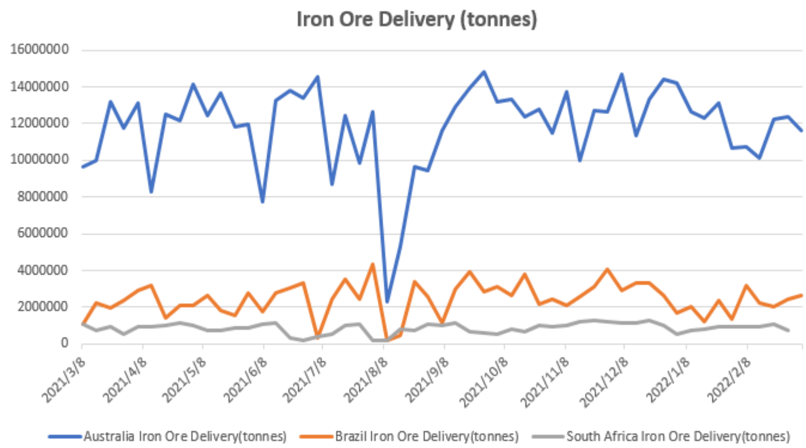
Iron Ore Key Points

Iron ore port inventories started a decreasing period since the portside iron ores become more cost-effective compared to seaborne iron ores.

Iron ore deliveries are sliding down globally because some of the laycans are in-transit.

MB65-P62 spread retreated to $26 as the demand market for high grade narrowed after China restriction timing passed as well as the narrow down on blast furnace margin in North Asian areas.

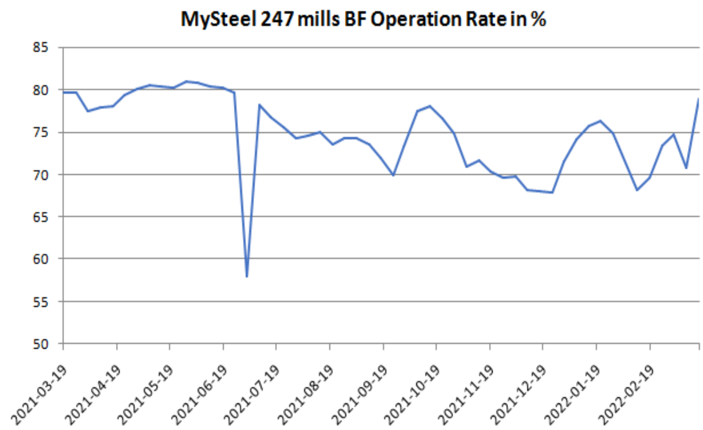


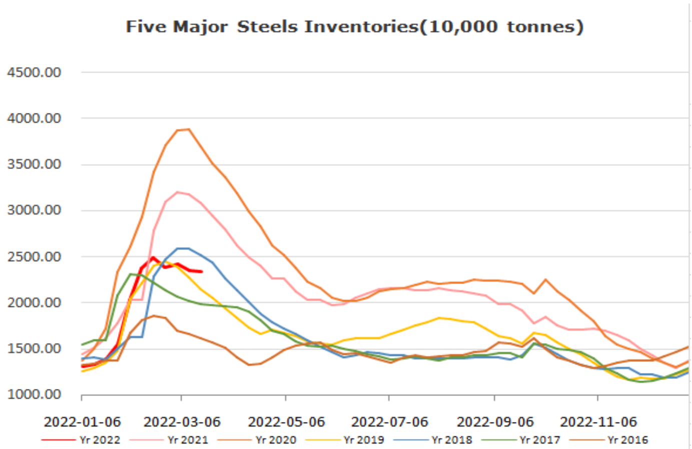


Data Sources: Platts, Fastmarkets, MySteel, Bloomberg, FIS

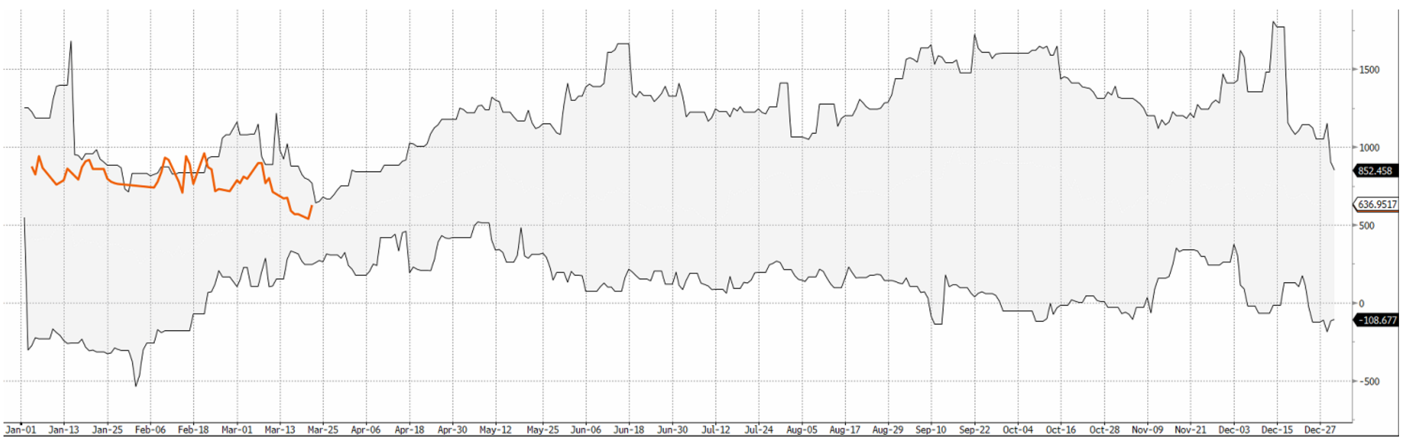
Steel

	Last	Previous	% Change
US HRC Front Month (Dollar/mt)	1134	1125	0.80%
LME Rebar Front Month (Dollar/mt)	728	722	0.83%
SHFE Rebar Major Month (Yuan/mt)	4943	4900	0.88%
China Hot Rolled Coil (Yuan/mt)	5147	5149	-0.04%
Vitural Steel Mills Margin(Yuan/mt)	636	689	-7.69%
China Five Major Steel Inventories Unit (10,000 mt)	2489.64	2371.33	4.99%
Global Crude Steel Production Unit (1,000 mt)	81685	86190	-5.23%
World Steel Association Steel Production Unit(1,000	145,666	144,417	0.86%





Virtual Steel Mill Margins (Five-Year Range)

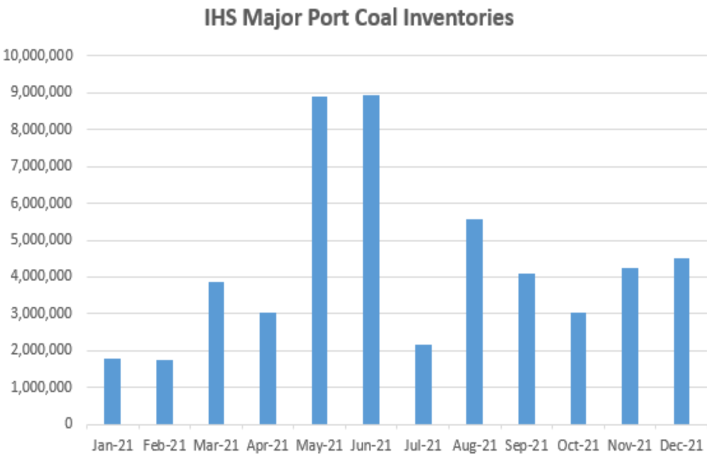


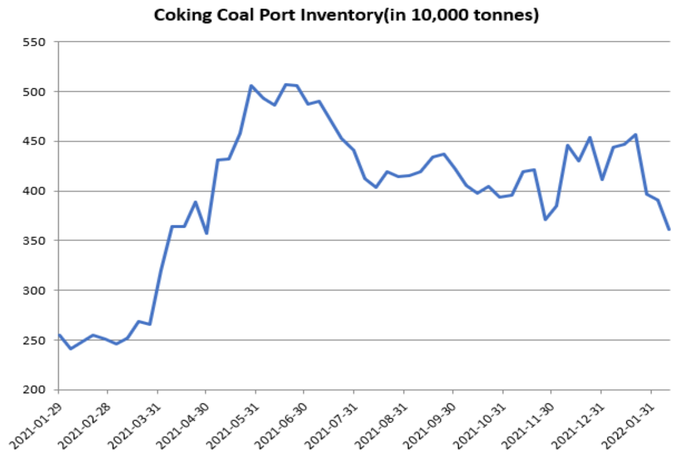
Data Sources: Bloomberg, MySteel, FIS

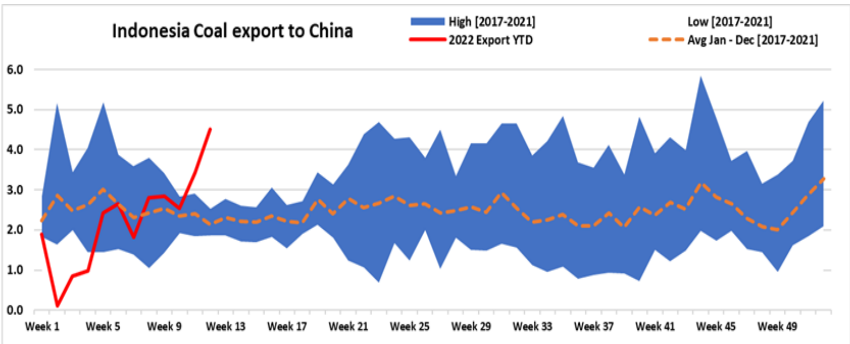
- Virtual steel mill margins fell quickly from 1000 yuan/ton, a seasonal high area to 689 yuan/ton, which forced some of mills start to shift the mass production to cost-saving strategy. In particular, on the physical side the margins narrowed faster as a lack of liquidity on premium coking coals and fast increasing coke price.
- The five type of steels inventory didn't reach an expected high level, since down-stream was cautious on buying, concerning the outbreak of the pandemic.

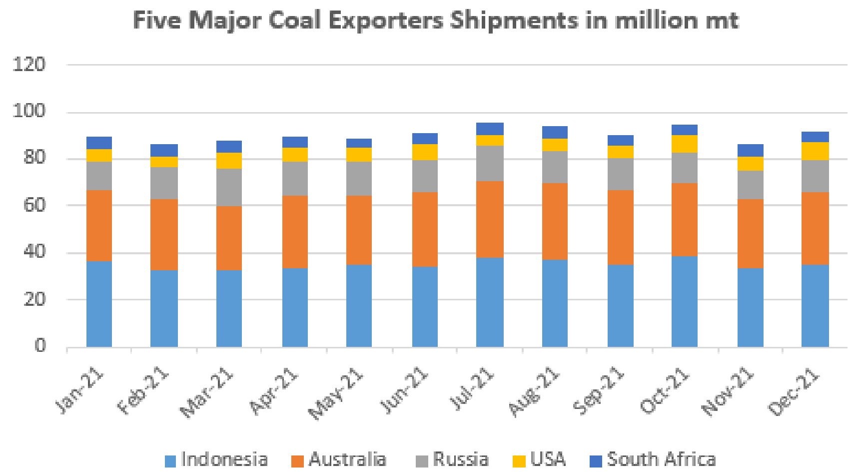
Coking Coal

	Last	Previous	% Change
TSI FOB Premium Hard Coking Coal (Dollar/mt)	625	670.5	-6.79%
Coking Coal Front Month (Dollar/mt)	630	635	-0.79%
DCE CC Major Month (Yuan/mt)	3274	3020	8.41%
IHS Major Coal Port Inventory (mt)	5,511,000	5,021,000	NA
China Custom total CC Import Unit mt	7,487,956	7,741,656	-3.28%









Data Sources: IHS Commodities at Sea Service, Bloomberg, FIS

Coal Key Points

- China and Japan are both looking for alternative sources other than Australia in case of a shortage on premium low coal.
- European countries are still in a tight supply mode on coal market. Current buyers are watching and waiting for the upcoming laycans when market relax.
- Indonesia coal export to China significantly picked up at 4.5 million tons/week level.

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